

**UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION**

**Remedying Undue Discrimination Through     )**  
**Open Access Transmission Service and        )**       **Docket No. RM01-12-000**  
**Standard Electricity Market Design            )**

**Opening Statement of Donald J. Sipe  
on behalf of  
The Industrial Energy Consumer Group  
for  
Congestion Revenue Rights Technical Conference  
December 3, 2002**

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Good morning. I want to thank the Commission for the opportunity to speak on behalf of the Industrial Energy Consumer Group on the transition to and allocation of CRRs.

The CRR model supported by the IECG is the full auction of all CRRs followed by an allocation of the revenues from the auction to Load or Load Serving Entities who actually pay congestion charges based upon serving load. NEPOOL has adopted such a model in its SMD filing.

The particular allocation of Auction Revenues in NEPOOL was a negotiated compromise, which while I believe is reasonable and has advantages for consumers, is not the only reasonable approach possible. But, the key to any allocation is to come up with a system that returns the value of the transmission system as directly as possible to the loads who support that system through their rates.

Consumers were the lead advocates for the auction in New England for four reasons:

1. Maximize liquidity;
2. Maximize the value returned to ratepayers;
3. Maximize market efficiency; and
4. Avoid discrimination and market manipulation.

## **1. Maximize Liquidity.**

By putting the entire system capacity up for auction, the largest number of possible trades and reconfigurations are enabled at each juncture. Thinly traded residual auctions are illiquid because the products traded are so limited as to severely restrict the degrees of freedom for creating value. A viable forward and secondary market demands liquidity and consumers need such a market to adequately hedge LMP volatility.

## **2. Maximize the Value Returned to Ratepayers.**

An auction does not take existing CRRs and sell them in the literal sense. Rather, an auction creates CRRs by choosing the set of simultaneously feasible bids for use of the transmission system that maximizes the value. In an auction, the highest total bids define the CRRs that are awarded. This maximizes revenues returned to ratepayers from the auction, and, in a properly functioning and liquid market, should exceed the value ratepayers receive from a direct allocation of CRRs.

This is because in allocating CRRs directly, you have to choose a set of CRRs and hand them out before you know whether that particular set yields the highest return to ratepayers.

Thus, aside from the value lost to ratepayers in the form of 1) decreased liquidity, 2) a greater potential for gaming a thin market and; 3) the potential for having too few CRRs available, at any price, to hedge volatility, there is likely to be a direct diminution in value received because the CRRs awarded through an allocation have not been optimized to maximize value.

*Is it possible to game an auction?*

Yes, but it is easier to game a thin, residual auction than a full one. Particularly when the residual auction is coupled with an allocation which entitles parties to strategically withhold product.

It is always easier to game an entitlement than an auction.

To assure adequate price discovery and transparency, the initial auctions should be short term and only transition to a longer term as sufficient experience and price discovery allows us to avoid systematic underbidding, and other problems.

Finally, on a point which I think is sometimes overlooked. There is much talk about needing to expand the CRR product to include options.

A properly functioning auction with revenues returned to load gives consumers the financial equivalent of an option right.

An ARR pays the consumer when its CRR entitlements have positive value, but never charges the consumer if congestion is reversed.

I hope to have an opportunity to address the last two points; 1) Maximizing market efficiency and; 2) Avoiding discrimination in response to questions.

I look forward to our discussion.